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TESTIMONY

OF

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ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

2011– HOUSE BILL 6026

CONNECTICUT GENERAL ASSEMBLY

COMMITTEE ON ENERGY AND TECHNOLOGY

MARCH 1, 2011

Good afternoon and thank you for the opportunity to testify. My name is Sandi Hennequin and I am the Vice President of the New England Power Generators Association, Inc. ("NEPGA"). NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) – or nearly 85 percent – of generating capacity throughout New England, and over 6,800 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. Overall, NEPGA's Connecticut companies pay approximately $35 million annually in state and local taxes. Our member companies provide 1,800 well-paying and skilled Connecticut manufacturing jobs, while contributing nearly one million dollars to charitable endeavors throughout the state. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA strongly opposes HB 6026. This bill would impose a 2 cent per kilowatt hour surcharge on the production of electricity from nuclear and coal facilities in Connecticut. NEPGA opposes this legislation for the following reasons:

- The proposed generation tax will increase electric costs, and sends a strong anti-business message hindering future resource development and associated job creation in the state.
- This particular generation tax arbitrarily and unfairly targets specific generation technologies and fuel sources.
- The proposed generation tax will adversely impact localities.
- This proposed legislation lacks any meaningful detail and it is not clear how it would be implemented.

I would like walk through each of these points and discuss why adopting the proposed generation tax in HB 6026 at this time is simply bad public policy.

A Generation Tax Will Increase Electric Costs and Sends a Strong Anti-Business Message.

NEPGA has been before this Committee numerous times and understands the concerns this Committee and its Chairs have regarding Connecticut's electric rates. Although rates stayed flat or went down this year due to decreases in the generation component of rates, the transmission component of rates increased by a double-digit percentages. With Connecticut electricity consumers realizing rate relief this year, it is simply bad public policy to now impose a new tax that will cause electric rates to rise.

This proposed generator tax – even though it is targeted toward baseload generation resources – will cause electric rates to rise. A generator – like any other manufacturer of a product – will incorporate all the costs of making a product into the market price. Thus when a generation plant, in this situation a nuclear or coal plant, sells its product it must factor the extra costs of this new production cost into the final sales price. Much of the power generation from these power plants is contracted with other entities. When the utilities solicit bids for Basic Service, or a retail customer signs up with a competitive electric supplier, the cost to buy this electric supply will be more. This tax, and the impact on the price of electricity, will be paid by all Connecticut electricity consumers.

When the state's policy makers opened Connecticut's markets to competitive generators, our member companies came to Connecticut and invested billions of dollars of private money in the state based upon a clear understanding of the state's business environment, including existing tax burdens. Creating additional tax burdens mid-stream, particularly amidst the current economic climate, sends a strong anti-business message. Because no other state in the region assesses a tax on the production of electricity, Connecticut would be setting a bad precedent by placing its generation facilities at a disadvantage to generators in the other New England states. The tax also provides a clear indication that the state may not offer the regulatory certainty and business environment necessary to ensure successful long-term investments. Sending this type of anti-business message to existing, and potentially new or relocating businesses, particularly those which often times provide the largest tax base to the towns and cities in which they operate, is simply bad public policy that may ultimately prevent future development and job creation in the state.

The Proposed Generation Tax Arbitrarily and Unfairly Targets Specific Generation Resources and Does Not Value the Need for Fuel Diversity.

The proposed generation tax arbitrarily and unfairly targets nuclear and coal facilities in Connecticut. Fuel diversity plays a critical role in the overall reliability of New England's power supply and electric grid. Assessing a tax on the production of electricity from coal and nuclear plants sends the message that certain resources, even though they are critically important to the functionality of the regional grid, should be penalized for operating. The rationale for singling out these particular resource types is not clear and is completely subjective. Imposing a generation tax on certain resource types, without a clear rationale, is simply bad public policy. It sets the wrong precedent that in the future a specific generation type may not be in favor with the Legislature and subject to its own arbitrary tax. Instead of discriminating against specific resource types, Connecticut should recognize the important role these facilities play in the local and regional economies as reliable and low-cost producers of energy.

A Generation Tax on Coal and Nuclear Facilities Could Adversely Impact Localities.

Electric generation plants are critically important members of the communities in which they operate. As noted earlier in this testimony, NEPGA plants contribute approximately $35 million in state and local taxes, the vast majority of which is contributed to the host community. In addition, NEPGA plant owners recognize the value of being good corporate neighbors and contribute to local charitable and nonprofit organizations in their host towns. Imposing the electric generation tax can have impacts on both of these actions. As plants go into negotiations with host communities regarding local property tax assessments and payments, they will invariably factor in other taxes which they already pay and will start at a different negotiating place then they would have without these other taxes. If a plant is paying millions of dollars in state generation taxes, these are millions of dollars they will not have available for the discussions with the towns.

Moreover, the imposition of this tax impacts the profitability of the plant and forces the owners to take a harder look at any "discretionary" spending such as the type of spending plants allocate to community and charitable activities. Any legislation that puts more pressure on financially challenged localities is not good public policy.

The Proposed Legislation Lacks Any Meaningful Detail Regarding Implementation.

The proposed legislation lacks any meaningful detail and it is not clear how it would be implemented. From the state's perspective, what agency would administer the tax? How often would it be assessed – monthly, quarterly, annually? Would a certain profit threshold have to be met before the tax would be imposed on a facility? What would the proceeds from the tax be used for and how would they be allocated? And most importantly, how would the state "prohibit the pass-through of surcharges to ratepayers?" Nuclear and coal plants are owned by private companies, who sell the majority of their output to utilities for Basic Service, to competitive suppliers and to retail customers. There is no feasible way to enforce the prohibition against the pass through as the additional costs will impact the cost of the electricity, which will impact prices that go to Connecticut consumers. Owners of these facilities are private companies, who would be at a competitive disadvantage to divulge all the details of their pricing which drive their contracts. To pass legislation that lacks even the most basic details of how this tax would be implemented is not just bad public policy, it is irresponsible public policy.

Conclusion

In summary, NEPGA strongly opposes HB 6026. This tax targets baseload generation facilities and it will cause electric rates in Connecticut to rise. Much of the power from these plants is sold through forward contracts. If the cost to produce the power goes up, the contract prices will necessarily follow. At the same time it sends a strong anti-business message by arbitrarily targeting certain generation resources and making Connecticut the only state in the country to impose a generation tax on its electricity manufacturing businesses. Imposing this tax adversely impacts localities by funneling existing dollars from local taxes and community expenditures to a state tax. Finally this legislation completely lacks any meaningful detail, making it unclear how the tax would even be implemented. For all these reasons, NEPGA strongly urges the Committee to not pass HB 6026.

Thank you for this opportunity to testify before you today. I would be happy to answer any questions from the Committee.